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INFO OCT-01 EUR-25 ADP-00 AID-20 EB-11 NSC-10 RSC-01

CIEP-02 TRSE-00 SS-15 STR-08 OMB-01 CEA-02 L-03 H-02

PA-03 PRS-01 USIA-12 AGR-20 CIAE-00 COME-00 FRB-02

INR-10 NSAE-00 XMB-07 OPIC-12 LAB-06 SIL-01 RSR-01

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R 231640 Z APR 73

FM AMEMBASSY NEW DELHI

TO SECSTATE WASHDC 3930

INFO AMEMBASSY ISLAMABAD

AMEMBASSY LONDON

AMEMBASSY KATHMANDU

AMCONSUL BOMBAY

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PASS AGRICULTURE

E. O. 11652: N/ A

TAGS: EAGR IN

SUBJECT: REPORT ON FIELD TRIP THROUGH WHEAT GROWING REGIONS OF
NORTHERN INDIA

BEGIN SUMMARY: TWO EMBOFFS TRAVELED THROUGH PRINCIPAL WHEAT
GROWING REGIONS NORTHERN INDIA. OUTLOOK FOR CURRENT WHEAT
HARVEST

IS THAT IT WILL EQUAL OR SLIGHTLY EXCEED PREVIOUS YEAR' S HARVEST OF
26.5 MILLION METRIC TONS. FARMERS AND FORMER WHOLESALE GRAIN
MERCHANTS UNHAPPY WITH NEW GOVERNMENT PROCUREMENT PROGRAM.
FARMERS CLAIM GOVERNMENT PROCUREMENT PRICE TOO LOW AND PLAN WITH-
HOLD GRAIN DELIVERIES TO GOVERNMENT IN EFFORT TO FORCE INCREASE IN
PROCUREMENT PRICE. STATE OFFICIALS APPEARED CONFIDENT THEY WOULD
ACHIEVE THEIR PROCUREMENT TARGETS WHICH TOTAL 6.5 MILLION TONS FOR

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THE THREE STATES VISITED. OVERALL OUTLOOK FOR SUCCESS OF NEW GOVERNMENT PROCUREMENT PROGRAM REMAINS UNCERTAIN. END SUMMARY.

1. TWO EMBOFFS MADE TEN DAY CAR TRIP THROUGH HARYANA, PUNJAB, U. P. STATES DURING PERIOD APRIL 9-18 TO ASSESS PROSPECTS FOR CURRENT WHEAT HARVEST AND TO DISCUSS WITH FARMERS, GRAIN MERCHANTS, AND STATE GOVERNMENT OFFICIALS OUTLOOK FOR IMPLEMENTATION OF NEW GOVERNMENT GRAIN PROCUREMENT PROGRAM. THE THREE STATES VISITED ACCOUNT FOR ABOUT 60 PERCENT OF INDIA'S TOTAL WHEAT PRODUCTION AND ABOUT 80 PERCENT OF TOTAL MARKETABLE WHEAT.

2. PROSPECTS FOR CURRENT WHEAT HARVEST GENERALLY GOOD THROUGHOUT AREA. MOST FARMERS, GRAIN MERCHANTS, AND GOVT OFFICIALS STATED YIELDS CURRENT HARVEST SLIGHTLY BELOW YIELDS PREVIOUS YEAR BUT THAT AREA PLANTED TO WHEAT INCREASED SUBSTANTIALLY OVER PREVIOUS YEARS. PUNJAB AND HARYANA STATES EXPECT TOTAL WHEAT HARVEST INCREASE OF ABOUT 200,000 TONS PER STATE OVER 1971-72 HARVEST. TOTAL HARVEST U. P. EXPECTED APPROXIMATELY EQUAL PREVIOUS YEAR'S HARVEST. WHEAT YIELDS ALL THREE STATES LIMITED BY SHORTAGES WATER AND FERTILIZER. OFFICIALS IN EACH STATE SAID YELLOW RUST HAD APPEARED IN MOST WHEAT FIELDS OF HIGH YIELDING VARIETIES ON MUCH LARGER SCALE THAN IN ANY EARLIER YEARS. RUST APPEARED LATE IN SEASON AND APPARENTLY DID NOT SERIOUSLY REDUCE YIELDS. PROBLEM IS OF SUCH MAGNITUDE, HOWEVER, THAT STATE OFFICIALS PLANNING SHIFT TO OTHER VARIETIES WHEAT NEXT SEASON WHICH ARE MORE RESISTANT TO YELLOW RUST EVEN THOUGH LATTER VARIETIES MAY BE LOWER YIELDING THAN PRESENT VARIETIES.

3. SPRING HARVEST PULSE CROPS GENERALLY GOOD IN STATES VISITED. U. P. EXPECTS A SUBSTANTIAL INCREASE IN PIGEON PEA HARVEST OVER PREVIOUS YEAR.

4. A MAJOR PROBLEM OF CONCERN TO AGRICULTURAL COMMUNITY IN ALL AREAS VISITED IS NATIONALIZATION OF WHOLESALE TRADE OF WHEAT AND RICE. WITHOUT EXCEPTION THE FARMERS AND GRAIN MERCHANTS WITH WHOM EMBOFFS TALKED OPPOSED RECENTLY ADOPTED PLAN FOR GOVERNMENT TAKEOVER WHOLESALE TRADE OF WHEAT. STATE GOVERNMENT OFFICIALS SUPPORTED GOVERNMENT PROGRAM AND ARE MAKING ALL EFFORTS POSSIBLE TO ENSURE ITS SUCCESS.

5. GENERAL ATTITUDE OF FARMERS IS TO WITHHOLD WHEAT FROM MARKET IN EFFORT FORCE GOVERNMENT TO INCREASE PROCUREMENT PRICE. PRESENT LIMITED OFFICIAL USE
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AUTHORIZED PROCUREMENT PRICE IS 76 RUPEES PER QUINTEL FOR FAIR AVERAGE QUALITY WHEAT AND 82 RUPEES PER QUINTAL FOR SPECIAL INDIGENOUS VARIETIES INDIAN WHEAT. PRODUCTION OF LATTER TYPE WHEAT

ACCOUNTS FOR ONLY 20 PERCENT OF TOTAL WHEAT CROP. FARMERS POINT OUT THAT PRESENT PROCUREMENT PRICE WHEAT HAS NOT CHANGED OVER PAST FIVE YEARS. DURING THE SAME PERIOD COSTS OF INPUTS SUCH AS SEEDS, FERTILIZER, WATER, AND PESTICIDES HAVE INCREASED SHARPLY. ALSO FARMERS POINT OUT THAT NORMALLY WHEAT SELLS FOR HIGHER PRICE THAN COARSE GRAINS SUCH AS CORN, GRAIN SORGHUM, AND MILLET. IN MOST MARKETS, HOWEVER, COARSE GRAINS CURRENTLY SELLING FOR HIGHER PRICES THAN AUTHORIZED PROCUREMENT PRICE FOR WHEAT.

6. AN IMPORTANT UNKNOWN AT PRESENT IS HOW LONG FINANCIAL OBLIGATION OF FARMERS WILL PERMIT THEM TO WITHHOLD WHEAT FROM MARKET. MANY FARMERS, PARTICULARLY SMALL FARMERS OWE DEBT WHICH MUST BE PAID SOON. SOME INDIANS WITH WHOM WE TALKED ESTIMATED THAT ABOUT ONE- HALF OF WHEAT FARMERS WILL BE FORCED TO SELL THEIR WHEAT AT PREVAILING PRICES AND THAT OTHER 50 PERCENT ARE STRONG ENOUGH FINANCIALLY TO WITHHOLD THEIR WHEAT FROM MARKET FOR INDEFINITE PERIOD. THIS LATTER GROUP PRODUCES WELL OVER 50 PERCENT OF TOTAL MARKETABLE WHEAT.

7. THE FORMER WHOLESALE GRAIN MERCHANTS IN ALL MARKETS VISITED STRONGLY OPPOSED NEW GOVERNMENT GRAIN PROCUREMENT POLICY. THEIR BITTERNESS TOWARD NEW GOVERNMENT POLICY RESULTS IN PART FROM FACT THAT THEY SUDDENLY BECAME UNEMPLOYED. IN CRITICIZING NEW POLICY THEY ARGUE THAT GOVERNMENT DOES NOT HAVE PERSONNEL AND PHYSICAL FACILITIES TO EFFECTIVELY HANDLE GRAIN TRADE AND THAT TOTAL COST OF OPERATION WILL BE MUCH GREATER THAN WHEN HANDLED THROUGH PRIVATE WHOLESALE MERCHANTS. THEY ALSO POINT OUT THAT MANY RETAILERS WILL BE FORCED TO CLOSE THEIR OPERATION BECAUSE GOVERNMENT IS NOT PREPARED TO PROVIDE REQUIRED CREDIT FACILITIES. MOST RETAILERS BUY GRAIN FROM WHOLESALERS ON CREDIT. WHEN THE GRAIN IS SOLD TO CONSUMERS, THE RETAILERS PAY THE WHOLESALER AND AT SAME TIME MAKES ANOTHER CREDIT PURCHASE. THIS CYCLE CONTINUES THROUGHOUT THE YEAR. THE GOVERNMENT DOES NOT HAVE SIMPLE AND WORKABLE CREDIT PLAN TO REPLACE CREDIT PROVIDED BY WHOLESALER.

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PASS AGRICULTURE

8. STATE AGRICULTURAL OFFICIALS ALL SEEMED TO BE OPTIMISTIC ABOUT MAKING THE NEW PROCUREMENT PROGRAM WORK AND THOUGHT THEY WOULD ACHIEVE THEIR WHEAT PROCUREMENT TARGETS WHICH ARE 3.4 MILLION TONS IN PUNJAB, 1.8 IN U. P. AND 1.3 IN HARYANA.

9. COMMENTS: THE OBJECTIVES OF GOVERNMENT TAKEOVER OF WHOLESALE TRADE OF WHEAT AND RICE ARE TO ENSURE INCENTIVE PRICES TO PRODUCERS, REASONABLE PRICES TO CONSUMERS THROUGHOUT YEAR AND STABILIZE SUPPLY OF FOODGRAINS FOR DISTRIBUTION TO CONSUMERS. TO ACHIEVE THESE OBJECTIVES AND TO PERFORM THE SERVICES NORMALLY HANDLED BY PRIVATE GRAIN MERCHANTS THE GOVERNMENT MUST PROCURE MOST OF THE SURPLUS GRAIN MARKETED. IF FARMERS SUCCEED IN WITHHOLDING FROM THE MARKET A MAJOR PART OF THEIR MARKETABLE WHEAT THE GOVERNMENT PROGRAM WILL BE ENDANGERED. IT IS EVIDENT THAT STATE
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AND CENTRAL OFFICIALS ARE CONCERNED ABOUT THE NEGATIVE ATTITUDE OF A
LARGE SECTOR OF THE POPULATION OVER THE GOVERNMENT'S DECISION TO TAKE OVER WHEAT TRADE. WITH THE LIMITED SUPPLIES OF BUFFER STOCKS NOW AVAILABLE (GOI OFFICIALS SAY "WE ARE LITERALLY OPERATING FROM SHIP TO MOUTH"), A FEW WEEKS DELAY BY FARMERS IN SELLING THEIR YLRPLUS WHEAT TO THE GOVERNMENT CAN CREATE SERIOUS PROBLEMS. PRESENT PROCUREMENT PRICE OF 76 RUPEES PER QUINTAL FOR AVERAGE QUALITY WHEAT IS EQUIVALENT TO DOLLARS 2.78 PER BUSHEL. TO MOST OUTSIDERS AND TO GOI OFFICIALS IN PARTICULAR THIS APPEARS TO BE AN INCENTIVE PRICE. FARMERS AGREE TO THE CONTRARY AND POINT TO SHARP INCREASES IN INPUT COST AND TO IMBALANCE BETWEEN PRICE OF WHEAT AND COARSE GRAINS. THIS IS CRITICAL POINT OF DIFFERENCE BETWEEN

GOI AND FARMERS. GOI OFFICIALS HAVE STATED REPEATEDLY THEY WILL NOT INCREASE PROCUREMENT PRICE WHILE FARMERS TRYING TO USE ONLY MEANS AT THEIR DISPOSAL TO FORCE PRICE INCREASE.

9. IF THE LARGER WHEAT FARMERS PERSIST IN THEIR ATTITUDE TO WITH-
HOLD WHEAT FROM THE MARKET, THE GOVERNMENT WILL BE FORCED TO TAKE
ADDITIONAL STEPS TO COPE WITH THE PROBLEM. POSSIBLE COURSES
OF ACTION WHICH MAY BE TAKEN BY THE GOVERNMENT ARE:

A. INCREASE THE PROCUREMENT PRICES PAID TO FARMERS. IF
PROCUREMENT PRICES SHOULD BE INCREASED TO AROUND 80-85 RUPEES
PER QUANTAL FOR AVERAGE QUALITY WHEAT (INSTEAD OF 76 RUPEES NOW
OFFERED) WE BELIEVE FARMERS WOULD DELIVER THEIR MARKETABLE
WHEAT TO THE GOVERNMENT. THE PRESENT AVERAGE RETAIL PRICE OF
WHEAT AT FAIR PRICE SHOPS IS ABOUT 85 RUPEES PER QUINTAL.
UNLESS THE GOVERNMENT INCREASES THE RETAIL PRICE TO CON-
SUMERS, WHICH APPEARS UNLIKELY, AN INCREASE IN PROCUREMENT
PRICE WOULD MEAN A MUCH LARGER GOVERNMENT SUBSIDY.

B. ESTABLISH OBLIGATORY DELIVERY SYSTEM. IN DISCUSSING
THIS POSSIBILITY WITH STATE GOVERNMENT OFFICIALS THE RESPONSE
WAS GENERALLY NEGATIVE. TWO STATES, HOWEVER, (MADHYA
PRADESH AND BIHAR) WHICH PRODUCE RELATIVELY SMALL
QUANTITIES OF WHEAT ARE ATTEMPTING THE OBLIGATORY DELIVERY
APPROACH. SINCE MOST STATE GOVERNMENTS WERE NEVER ENTHUSI-
ASTIC ABOUT GOVERNMENT TAKEOVER OF WHOLESALE TRADE OF WHEAT,
WE DOUBT IF THIS ALTERNATIVE WOULD BE A POPULAR CHOICE IN THE
MORE IMPORTANT WHEAT PRODUCING STATES.

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C. INCREASE FOODGRAIN IMPORTS. THUS FAR TOP GOI OFFICIALS
HAVE NOT ADMITTED PUBLICLY THAT THEY EXPECT TO IMPORT ADDITIONAL
FOODGRAINS LATER THIS YEAR. HOWEVER, SOME SENIOR OFFICIALS IN
THE MINISTRY OF AGRICULTURE AGREE THAT ADDITIONAL IMPORTS WILL
BE NEEDED DURING THE SUMMER AND AUTUMN MONTHS EVEN IF THE
NEW PROCUREMENT PROGRAM WORKS SATISFACTORILY. TO ANNOUNCE
THE PURCHASE OF A LARGER TONNAGE OF FOODGRAIN IMPORTS THAN
ORIGINALLY ANTICIPATED MAY ENCOURAGE FARMERS TO INCREASE
THEIR WHEAT DELIVERIES TO GOVERNMENT. THIS PROCEDURE MAY
HAVE THE DISADVANTAGE OF FURTHER DISCOURAGING FARMERS AND
COULD BE COUNTER- PRODUCTIVE IN TERMS OF INCREASING AGRI-
CULTURAL PRODUCTION IN THE YEARS AHEAD.
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*** Current Handling Restrictions *** n/a

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01 JAN 1994
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: n/a
Control Number: n/a
Copy: SINGLE
Draft Date: 23 APR 1973
Decaption Date: 01 JAN 1960
Decaption Note:
Disposition Action: RELEASED
Disposition Approved on Date:
Disposition Authority: boyleja
Disposition Case Number: n/a
Disposition Comment: 25 YEAR REVIEW
Disposition Date: 28 MAY 2004
Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1973NEWDE04727
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: n/a
Errors: n/a
Film Number: n/a
From: NEW DELHI
Handling Restrictions: n/a
Image Path:
ISecure: 1
Legacy Key: link1973/newtext/t19730448/aaaaiuea.tel
Line Count: 272
Locator: TEXT ON-LINE
Office: ACTION NEA
Original Classification: LIMITED OFFICIAL USE
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 5
Previous Channel Indicators:
Previous Classification: LIMITED OFFICIAL USE
Previous Handling Restrictions: n/a
Reference: n/a
Review Action: RELEASED, APPROVED
Review Authority: boyleja
Review Comment: n/a
Review Content Flags:
Review Date: 03 AUG 2001
Review Event:
Review Exemptions: n/a
Review History: RELEASED <03-Aug-2001 by reddocgw>; APPROVED <15-Aug-2001 by boyleja>
Review Markings:

Declassified/Released
US Department of State
EO Systematic Review
30 JUN 2005

Review Media Identifier:
Review Referrals: n/a
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
Secure: OPEN
Status: <DBA CORRECTED> srp 980127
Subject: REPORT ON FIELD TRIP THROUGH WHEAT GROWING REGIONS OF NORTHERN INDIA
TAGS: EAGR, IN
To: NEA
SECSTATE WASHDC INFO BOMBAY
CALCUTTA
LONDON
MULTIPLE
Type: TE
Markings: Declassified/Released US Department of State EO Systematic Review 30 JUN 2005

